

**CALIFORNIA ALTERNATIVE ENERGY AND  
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**E&J Gallo Winery  
Application No. 14-SM007**

**Tuesday, May 20, 2014**

Prepared By: *Alejandro Ruiz*

**SUMMARY**

**Applicant** – E&J Gallo Winery

**Location** – Livingston, Merced County

**Industry** – Biogas Capture and Production

**Project** – New Biogas Capture and Production Facility

**Value of Qualified Property** – \$17,592,381

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$1,481,278

**Estimated Net Benefits** – \$24,432

**Application Score<sup>3</sup>** –

Fiscal Benefits Points:	771
<u>Environmental Benefits Points:</u>	<u>246</u>
<b>Net Benefits Score:</b>	<b>1,016</b>

<u>Additional Benefits Points:</u>	<u>110</u>
<b>Total Score:</b>	<b>1,126</b>

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.42%.

<sup>3</sup> Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

**THE APPLICANT**

E&J Gallo Winery (“E&J Gallo” or the “Applicant”) was founded in 1933 in Modesto, California. E&J Gallo is the world’s largest, family-owned winery and the largest exporter of California wines.

The major shareholders (10.0% or greater) of E&J Gallo Winery are:

Dry Creek Corporation

The corporate officers of E&J Gallo Winery are:

Joseph Gallo – CEO & President  
Robert Gallo – Co-Chairman of the Board  
James Coleman – Co-Chairman of the Board

**THE PROJECT**

E&J Gallo is designing and building the Livingston Water Innovation and Energy (LWINE) Facility that will be comprised of an anaerobic digester system and two 1 MW engines that will send power to the LWINE facility and adjacent E&J Gallo facilities (the “Project”). The Project will convert 158 million gallons per year of waste water and 47,250 tons of grape pomace into biogas that will be used to generate electricity and heat. The Applicant represents that the engines will provide enough energy to cover 50 percent of the E&J Gallo Winery’s annual electrical load. There will also be substantial byproducts from the process, including the treatment of 158 million gallons of winery waste water effluent for use in vineyard irrigation and compostable material and organic fertilizer.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture biogas and it also includes a portion of the 2 MW power generation equipment used to power the facility. The Project’s equipment will consume 45 percent of the total amount of energy generated, therefore 45 percent of the power generation equipment is eligible for an STE under the Program. However, the remaining 55 percent of the power generation equipment is not included in this Application as this represents the proportion of electricity that will be sold to the grid.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Influent Pump Station (2 Pumps)	\$ 182,145
Pretreatment and High Rate Anaerobic Digester System	3,296,806
Low Rate Anaerobic Digester System	4,017,550
Digestate Solids Handling	2,238,496
Biogas Handling	1,560,757
Generators (45% of total cost)	1,260,775
Switchgear (45% of total cost)	253,241
Aerobic Treatment System	2,989,692
Pond & Pump Station	1,161,680
Equipment structure and enclosure	631,239
<b>Total</b>	<b><u>\$17,592,381</u></b>

*Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components (of the Project) over original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.*

**TIMELINE**

The Applicant represents that the Project conceptualization, design and planning began in 2012. The site preparation and construction, including laying concrete foundations and building physical infrastructure, began in 2013. In 2014, the anaerobic digestion system components will be built, with the entire facility completed by the end of 2014.

**PROJECT EVALUATION**

**NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$17,592,381 and the total net benefits are valued at \$24,432 for the Project. The Project received a Total Score of 1,126 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 246 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (771 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property

taxes and other indirect fiscal benefits of the Applicant which amounts to \$1,142,019 resulting in a Fiscal Benefits score of 771 points for the Project.

- B. Environmental Benefits (246 points).** The Project will result in \$363,691 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 246 points for the Project. These benefits derive from displacing the use of fossil fuel through the production of biogas and the avoidance of emissions that would otherwise be produced if the grape pomace was sent to a landfill to decompose.
- C. Additional Benefits (110 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 110 additional points.
- 1. Permanent Jobs (20 of 75 points).** The Applicant’s Project will support a total of seven permanent jobs at its Facility. CAEATFA estimates that approximately one of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 20 points for the Project.
  - 2. Construction Jobs (40 of 75 points).** The Applicant’s Project will support a total of 38 construction jobs at its Facility. CAEATFA estimates that approximately six of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of 40 points for the Project.
  - 3. Unemployment (50 of 50 points).** The Applicant’s Project is located in Merced County which has an average annual unemployment rate of 15%. This is above 110% of the average annual statewide unemployment rate which is currently 8.8% resulting in an Unemployment Score of 50 points for this Project.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

All necessary permits for construction and operation are now in place.

## **LEGAL QUESTIONNAIRE**

Staff reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

**CAEATFA FEES**

In accordance with CAEATFA Regulations,<sup>4</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$70,369.

**RECOMMENDATION**

Staff recommends approval of Resolution No. 14-SM007 for E&J Gallo Winery's purchase of Qualified Property in an amount not to exceed \$17,592,381 anticipated to result in an approximate sales and use tax exclusion value of \$1,481,278.

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<sup>4</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH E&J GALLO WINERY**

May 20, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **E&J Gallo Winery** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$17,592,381 over a period of 3 years; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

**Agenda Item – 4.C.4**  
**Resolution No. 14-SM007**  
**Application No. 14-SM007**

Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property listed in the semi-annual reports pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(a), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.